

June 09, 2005

Tax Reform Panel:

Thank you very much for allowing the citizens of our country to share some input about our present tax system. I'm 68 and have been paying taxes since I was 20. For the past five years, I have served as a Tax-Aide counselor with the AARP and have assisted more than 300 clients with their income tax returns. Our tax system currently is very laborious and grossly unfair. I see this from a perspective purely as an unpaid volunteer and dealing with clients who are mainly seniors with a various mix of income situations and tax liability consequences.

It would appear that our Treasury would benefit by devising a tax revenue system that would generate the most income possible. I'm sitting here at my desk typing and watching cars drive up and down streets in our neighborhood seeking to buy "bargains" at yard sales. Will our government treasury realize any bartering income from money in this "underground economy?" I seriously doubt that the citizens will follow through with their moral obligation to pay tax on their "income!"

Our community also has numerous "flea markets" on weekends and they are teeming with customers who are obviously "undocumented aliens" (illegal immigrants). Do you think that those sellers are reporting their bartering income? Our community is currently experiencing a huge influx due to new home construction. These contractors are awash with people who work for cash only and you know what that means—no income tax there either!

I hope that the panel is giving very serious consideration to a value-added tax or “consumption” tax! That is the only way that our treasury will be able to benefit from having everyone participate in paying their fair share of taxes. People hide income, but they cannot hide from spending income for “legitimate” purchases. You will never be able to stop the underground economy of yard sales, flea markets, and workers laboring for “cash only.” However, everyone is involved in purchasing goods and services necessary for daily life. Food (not tobacco and alcoholic beverages), Medicine, and medical services should be exempt from consumption taxes. However, clothing, household items, fuel, utilities, transportation, insurance, even housing, services and virtually everything else needed by tax payers could be subject to a consumption tax. In this manner every person would be subject to an even tax code. If you need it or want it and buy it, you pay a tax on it!

It would be a workable program to add a value-added tax on a graduated scale up to say 1% for the cost of housing. This idea would need a great deal of tweaking with regard to rental property, but that should be included as well in order that everyone pay their fair share of taxes.

There is a strong probability that a consumption tax would need to be phased in while the present income tax system is modified or even phased out (which just won't happen). My volunteer work has provided me experience with numerous older taxpayers who find it most unpleasant to be required to pay taxes on Social Security income. Taxing SS income was implemented in two stages and neither has been changed for indexing nor inflation. The same situation holds true for the Alternative Minimum Tax. Both of these are very unfair.

Individuals on Social Security are still having to work just to make ends meet in meager needs. Many seniors find jobs at places like Wal-Mart and earn W-2 income. Unless they are very careful, their income from part-time work triggers a hefty tax bill and they just cannot understand why SS benefits are taxed. By the way, when some accountants get busy and figure out just how much money the buying public (including illegal immigrants) spends at places like Wal-Mart, it can readily be seen that a mixture of consumption tax formulas will result in an astronomical amount of revenue for the US Treasury.

A consumption tax could begin at a figure of 5% and be increased 1% per year over a period of time to a maximum of 12%. Meanwhile, the current Income Tax program for individuals could be restructured downward accordingly and ultimately phased out for individuals reporting AGIs of less than \$30,000 per person (30k for singles, 60K for married filing jointly). The IRS would still receive W-2s, and 1099s in order to insure that taxpayers are being honest about their income. The individual taxpayer would still be responsible for filing a tax return on a modified schedule (10%, phased down to 9% the next year, and 8% the following year and so on) until the consumption tax is fully funding the US Treasury.

Currently, savings and investing by individuals are discouraged by our government due to the tax liabilities people must face because of the additional income. As a tax reform committee, you are very well equipped to flesh out the details of this simple suggestion regarding our current tax code. By the way, I hope you realize just how complicated the Tax-Aide test is for guys like me. We want to give our clients the best service possible, however, every year we find someone who has a unique tax situation that sends us scurrying for additional information. I have an IRS help

number available as a volunteer and have used it frequently. I was amused recently about a situation which prompted our Tax-aide center to make a call to the IRS to obtain information for a client. The representative at the IRS did not know the answer to the problem and promised to call us back within five business days. Meanwhile, we trudged through the muddle with Pub. 17, the IRS web-site and found the answer ourselves. Each of us learned from the experience. When the agent called us back, she was relieved to know that we had figured out the solution to the problem, because she had not!

There is absolutely no reason that the tax code cannot be made simpler and fairer at the same time. The added revenues can be gleaned from those who cheat via the underground economy and “cash only” contract workers. Even tourists who visit this country would be counted on to contribute. I’ll be very interested in following the progress of your reforms and will be holding my breath to see if Congress implements any changes. The IRS will get much smaller and a lot of CPAs will be looking for other income, but hey, there are a lot of “little old people out here suffering” who are unable to start new careers!

Sincerely,

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